



Asset Exchange Company

1031



1031 Exchange Strategies



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Member of the Federation of Exchange Accommodators



Bank with Union Bank of California



Errors and Omissions Insurance and Fidelity Bond through Lockton Insurance Brokers

Department of Consumer Affairs
California Board of Accountancy

Member of the CA Board of Accountancy



Member of the State Bar of California

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Galaxy Office Park, Concord CA

- \$42,000,000 Sale Price
- 3 LLC owners, with multiple LLC members
- \$11MM in unsecured debt
- Buyers and sellers decided to prorate the sales price in different manners between 3 parcels



Sandy Springs Apartments, Atlanta GA

- \$26,000,000 Sale Price
- 27 individual TIC owners
- Each individual owner conducting separate exchange



Brittan Ave Condo, San Carlos CA

- \$617,000 Sale Price
- 2 owners
- One owner conducting an exchange

1031 Guidelines

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Basic Requirements

- Property Qualifications
- Tax Deferral Requirements
- Timeline
- Identification Rules

Guideline #1

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➤ **Property Qualifications**

- Held for productive use in trade or business or for investment.
- Like kind
 - Foreign property is NOT like kind

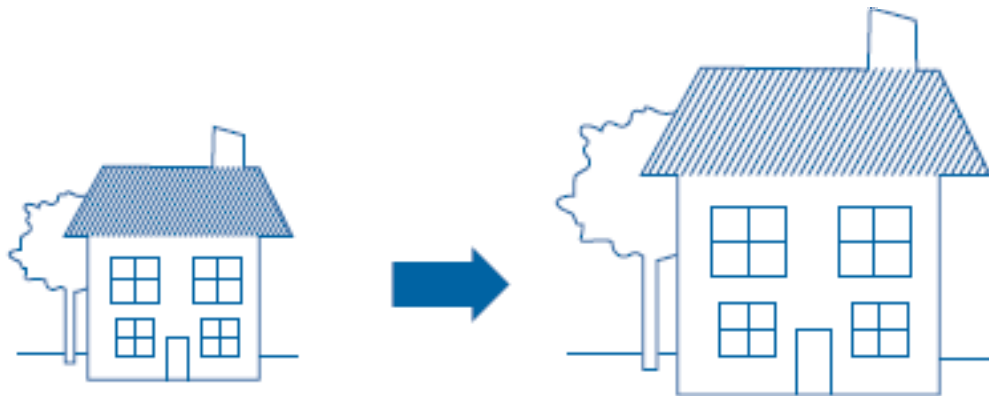


Guideline #2

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➤ Tax Deferral Requirements

- Reinvest all cash.
- Purchase price equal to or greater than replacement property sale value.

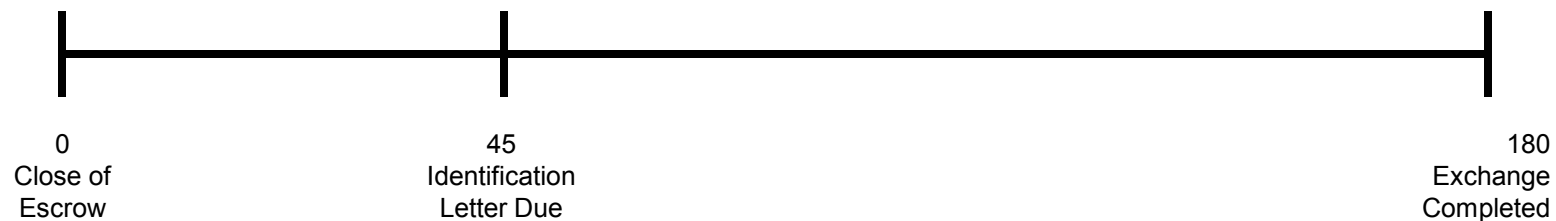


Guideline #3

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➤ **Timeline**

- 180 days - or until your taxes are due for the year
- 45 day identification period.
- COE after October 17th must file extension.



Guideline #4

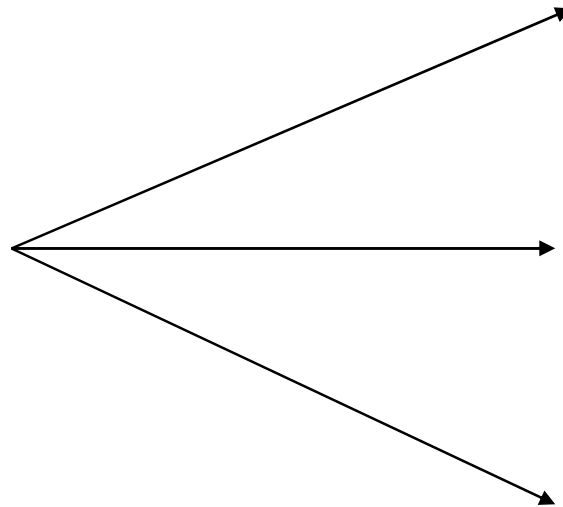
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- **Identification**
 - 3 Property Rule
 - 200% Rule

Guideline #4

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➤ 3 Property Rule



Guideline #4

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➤ 200% Property Rule



200%

Recent Trends in 1031 Exchange

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1031 Exchange Trends

- Less Exchanges
(short sales, cash out, etc)
- Quick Flips
- Construction Exchanges
- Reverse Exchanges
 - Buy First, then sell
- No Appreciation Exchanges

The subject matter in this presentation is intended as general information only and not intended as tax or legal advice.
Please always consult your tax or legal advisor for any specific tax or legal matters.

No Appreciation Exchanges

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Example

Facts:

\$1,000,000 purchase price
\$1,000,000 sales price

Problem:

\$200,000 depreciation
- Depreciation lowers basis

Tax Liability:

25% Depreciation Recapture Tax
\$50,000 federal depreciation tax bill
\$20,000 state capital tax

Tax Changes

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- **The California state capital gain tax decreased from 9.55% to 9.3%**
- **In 2011, top taxpayers will continue to pay 15% on dividends and capital gains thanks to the Tax Plan compromise.**
- **In 2013, 3.8% Medicare tax on all** income from interest, dividends, annuities, royalties, capital gains and rents for individuals who earn more than \$200,000 annually and joint filers reporting more than \$250,000.

Gain Calculation

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Gain Calculation:

Sale Price	\$1,000,000
(Adjusted Basis)	(\$425,000)
<u>Gain</u>	<u>\$575,000</u>

Adjusted Basis

Purchase Price	\$500,000
(Depreciation)	\$100,000
+Capital Improvements	\$25,000
<u>Adjusted Basis</u>	<u>\$425,000</u>

Facts:

\$500,000 purchase price
\$100,000 depreciation
\$25,000 capital improvements
\$1,000,000 sales price

Taxes:

25% Dep. Recapture

$$\$100,000 \times 25\% = \$25,000$$

15% Fed. Cap Gains

$$\$475,000 \times 15\% = \$71,250$$

9.3% State Cap Gains

$$\$575,000 \times 9.55\% = \$53,475$$

Total Taxes Due: \$149,725

Tax Advantages - Selling

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IRC Section 1031?

- Investment Real Estate
- Tax Deferral

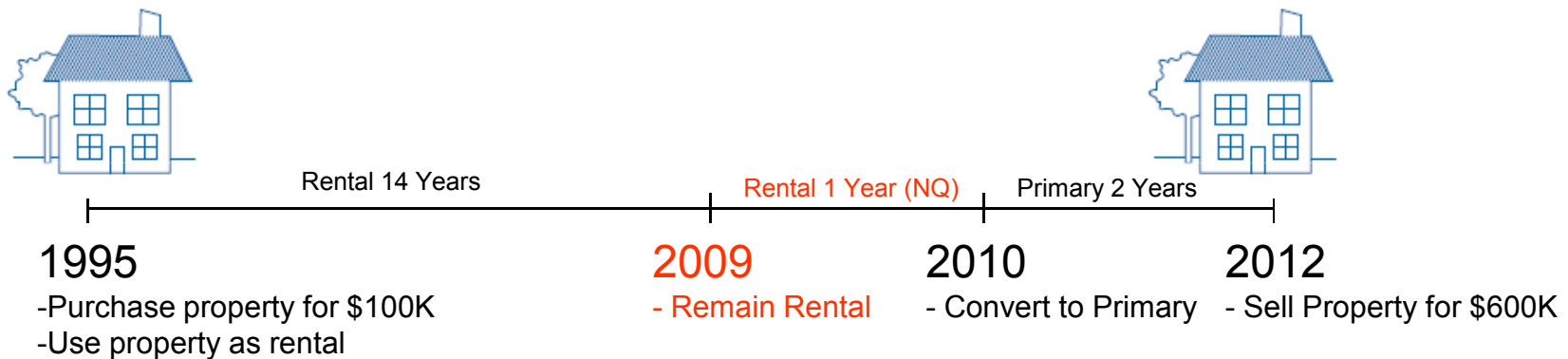
IRC Section 121?

- Primary Residence
- Tax Avoidance
 - \$250K single
 - \$500K married

Rental To Primary

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Rental to Primary – After 2009: Tax Problems!



Tax Implication: \$8,700

- 16/17 of Gain Exempt (\$470K)
- 1/17 of Gain taxed (\$29K) – taxes approx. \$8,700

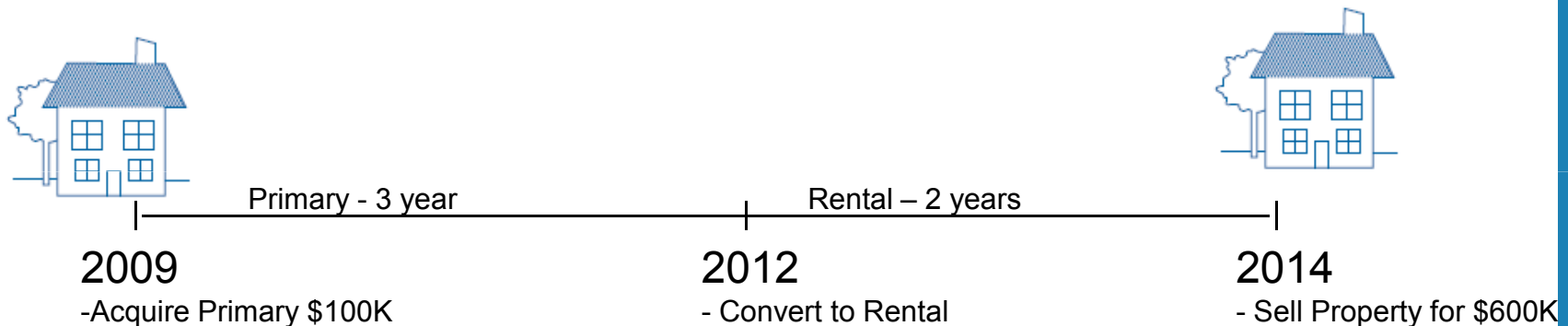
Facts:

- 1 Year of “Non Qualified Gain”
- 2 Years as Primary
- Eligible for Homeowners Exemption
- 1/17 of Gain allocated to “Non Qualified Rental Period”

Primary To Rental

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Conversion of a Primary Residence: Not Affected



Tax Implication: \$0K

- Allocation rules ONLY apply to time BEFORE primary residence use

Why Exchange?

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Why Investors Exchange:

Tax Deferment

- 15% Federal Capital Gain Tax for assets held > 1 year.
- 9.55% State Capital Gain Tax.
- 25% Depreciation Recapture Tax.

Buy "MORE" Property

- Utilize "saved/deferred taxes" to leverage into a larger property.
- Exchange from a property that has a high equity position into a much more valuable property.

Diversification

- Geographic diversification.
- Asset class diversification.

Longtime Ownership Issues

- Relief of management burden.
- Exchange from a fully depreciated property to a higher value property that can be depreciated.

Contact Info

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